

T00
Department of Commerce

Executive Summary

The mission of the Department of Commerce (Commerce) is to strengthen the Maryland economy. Commerce develops and implements programs that aim to generate new jobs or retain existing jobs, attract business investment in new or expanding companies, and promote the State's strategic assets.

Operating Budget Data

(\$ in Thousands)

	<u>FY 18</u> <u>Actual</u>	<u>FY 19</u> <u>Working</u>	<u>FY 20</u> <u>Allowance</u>	<u>FY 19-20</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$84,045	\$100,545	\$96,471	-\$4,074	-4.1%
Adjustments	0	-4,907	458	5,365	
Adjusted General Fund	\$84,045	\$95,638	\$96,929	\$1,291	1.3%
Special Fund	39,381	62,424	56,442	-5,982	-9.6%
Adjustments	0	5,028	149	-4,880	
Adjusted Special Fund	\$39,381	\$67,452	\$56,591	-\$10,861	-16.1%
Federal Fund	2,182	1,494	3,529	2,034	136.1%
Adjustments	0	4	15	12	
Adjusted Federal Fund	\$2,182	\$1,498	\$3,544	\$2,046	136.5%
Adjusted Grand Total	\$125,608	\$164,589	\$157,064	-\$7,525	-4.6%

Note: The fiscal 2019 appropriation includes deficiencies, a one-time \$500 bonus, and general salary increases. The fiscal 2020 allowance includes general salary increases.

- The fiscal 2020 allowance decreases by \$7.5 million compared to the fiscal 2019 working appropriation, driven by reductions in Economic Development Opportunities Account (Sunny Day Fund) expenditures, which are offset by increases in personnel costs and an expansion of the More Jobs for Marylanders program to opportunity zones.

Note: Numbers may not sum to total due to rounding.

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Personnel Data

	<u>FY 18 Actual</u>	<u>FY 19 Working</u>	<u>FY 20 Allowance</u>	<u>FY 19-20 Change</u>
Regular Positions	189.00	188.00	188.00	0.00
Contractual FTEs	<u>25.50</u>	<u>26.00</u>	<u>26.00</u>	<u>0.00</u>
Total Personnel	214.50	214.00	214.00	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	10.07	5.66%
Positions and Percentage Vacant as of 12/31/18	16.00	8.51%

Key Observations

- Early projections for the utilization of the More Jobs for Marylanders Act tax credit were not met, and the program is likely overfunded in the fiscal 2020 allowance. In addition, \$6 million in general funds is provided for an expansion of the program in fiscal 2020.
- The allowance for the Sunny Day Fund in the State Reserve Fund is unneeded as funds from the Amazon incentive package from 2018 remain available to use.
- A variety of factors including federal banking regulations, reduced funding, diverted funding, and increased demand, are putting pressure on three of Commerce's important financial assistance programs.

Operating Budget Recommended Actions

	<u>Funds</u>
1. Reduce funds for the Maryland Economic Development Assistance Authority and Fund.	\$ 2,000,000
2. Reduce funds for the More Jobs for Marylanders income tax credit program.	5,000,000
3. Make funding for the More Jobs for Marylanders – Opportunity Zone expansion contingent on the enactment of SB 174 or HB 150.	

T00 – Department of Commerce

4.	Reduce funding for the More Jobs for Marylanders Act – Opportunity Zone expansion.	3,000,000
5.	Delete the general fund allowance for the Economic Development Opportunities Program Account.	5,000,000
Total Reductions		\$ 15,000,000

Updates

- Commerce awarded \$27.5 million in grants in fiscal 2018.

T00
Department of Commerce

Operating Budget Analysis

Program Description

The mission of the Department of Commerce (Commerce) is to strengthen the Maryland economy. Commerce develops and implements programs that aim to generate new jobs or retain existing jobs, attract business investment in new or expanding companies, and promote the State's strategic assets. The department's primary goals are to increase business investment in Maryland, enhance business success and the competitiveness of businesses in their distinct markets, and develop a diverse economic base and ensure that all jurisdictions share in the State's economic vitality.

The department's divisions include the Office of the Secretary; the Division of Business and Industry Sector Development; and the Division of Tourism, Film, and the Arts. The department's mission and goals are supported by these three divisions.

- ***Office of the Secretary:*** The Office of the Secretary provides leadership and direction to the activities of the department and maintains working relationships with State and federal agencies, county and municipal governments, businesses, and organizations. Included in the program are the offices of the Attorney General, Policy and Research, International Investment and Trade, Administration and Technology, Military and Federal Affairs, and the Division of Marketing and Communication. Also included under the purview of the Office of the Secretary is the Maryland Marketing Partnership (MMP).
- ***Division of Business and Industry Sector Development:*** This division unites the department's field staff, small business, and finance teams to provide assistance to the Maryland business community and to the department's local economic development partners. This division also includes the offices of BioHealth, Business Development, Strategic Industries and Entrepreneurship, and Cybersecurity and Aerospace. The division provides access to capital markets through a variety of financing programs, worker training assistance for new and expanding businesses, and funding assistance to local jurisdictions to support infrastructure and economic development efforts.
- ***Division of Tourism, Film, and the Arts:*** This division's mission is to strengthen the State's quality of life and encourage economic development by investing in and promoting Maryland's unique historic, cultural, and natural assets.

Business Assistance Programs

Commerce administers several primary business assistance programs. These programs provide resources upon which the Division of Business and Industry Sector Development draws when assembling incentives to help a business expand or locate in Maryland. The following are the five main assistance programs in the operating budget.

- ***Maryland Economic Development Assistance Authority and Fund (MEDAAF):*** MEDAAF was established by the General Assembly under Chapter 301 of 1999 as a revolving loan fund. The fund provides below market, fixed-rate financing in the form of loans, grants, conditional loans, conditional grants, and direct investment to local jurisdictions and businesses. Businesses, particularly those in growth industries that are locating or expanding in priority funding areas, are targeted. Funds may be used for property acquisition, construction, or renovation of buildings, including tenant improvements and capital equipment.
- ***Maryland Small Business Development Financing Authority (MSBDFA):*** This program provides financing assistance to socially or economically disadvantaged persons in Maryland. Chapter 172 of 2001 broadened the MSBDFA scope to reach all businesses unable to obtain adequate, reasonable financing through private lending institutions due to credit criteria. A private contractor, currently Meridian Management Group, Inc., reviews the financing applications for presentation to the MSBDFA board. MSBDFA has four programs: the Contract Financing Program; the Long-Term Guaranty Program; the Surety Bond Program; and the Equity Participation Investment Program.
- ***Small, Minority, and Women-Owned Businesses Account (SWMOBA):*** This program is designed to provide capital investments and loans for small, minority, and women-owned businesses that are primarily located in areas of the State with gaming facilities.
- ***Maryland Industrial Development Financing Authority (MIDFA):*** This program is designed to provide financing support to manufacturing, industrial, and technology businesses. The program provides the support by partnering with private-sector financing to issue bonds and provide credit enhancements that increase access to capital for small and midsize companies.
- ***Economic Development Opportunities Program Fund (Sunny Day Fund):*** This program provides conditional loans and investments to take advantage of extraordinary economic development opportunities, defined in part as those situations that create or retain a substantial number of jobs and where a considerable private investment is leveraged. The Sunny Day Fund is a fund under the State Reserve Fund.

Types of Financing Assistance

Commerce's business assistance may take the form of investments, loans, conditional loans and grants, grants, and tax credits.

- ***Investments:*** Commerce considers investments the primary tool for business assistance. The agency purchases equity from companies to provide capital for them. Investments are made with the hope of an eventual financial return, but the timing and the amount of the return are unknown.

- **Loans:** Commerce loans are structured similar to conventional loans, but they have a favorable interest rate. The interest rate may scale down annually if the business is meeting or exceeding the job creation goals as agreed to in the loan documents. Likewise, the rate may scale up if the business is not meeting these goals.
- **Conditional Loans and Grants:** With conditional loans, repayment is forgiven if the business achieves employment goals. In effect, conditional loans become grants if conditions are met. Commerce treats conditional grants the same as conditional loans but, in some cases, a company may not want to account for Commerce assistance as debt, so they receive a conditional grant. In other cases, conditional grants are used if a company must meet a target, such as completing a feasibility study, before the funds are awarded.
- **Grants:** With grants, there is no repayment of the funds, and no conditions are attached. Commerce does not use this form of assistance often.
- **Tax Credits:** The department administers several tax credit programs, including the Biotechnology Investment Incentive Tax Credit, the Base Realignment and Closure Revitalization and Incentive Zone Program, the Brownfields Tax Incentive, the Enterprise Zone Tax Credit, the Job Creation Tax Credit, the One Maryland Tax Credit, the Cybersecurity Investment Incentive Tax Credit, the Film Production Activity Tax Credit, the Research and Development Tax Credit, and the More Jobs for Marylanders Tax Credit. The More Jobs for Marylanders Tax Credit, the Biotechnology Investment Incentive Tax Credit, and the Cybersecurity Investment Incentive Tax Credit are budgeted within the department's appropriation.

Performance Analysis: Managing for Results

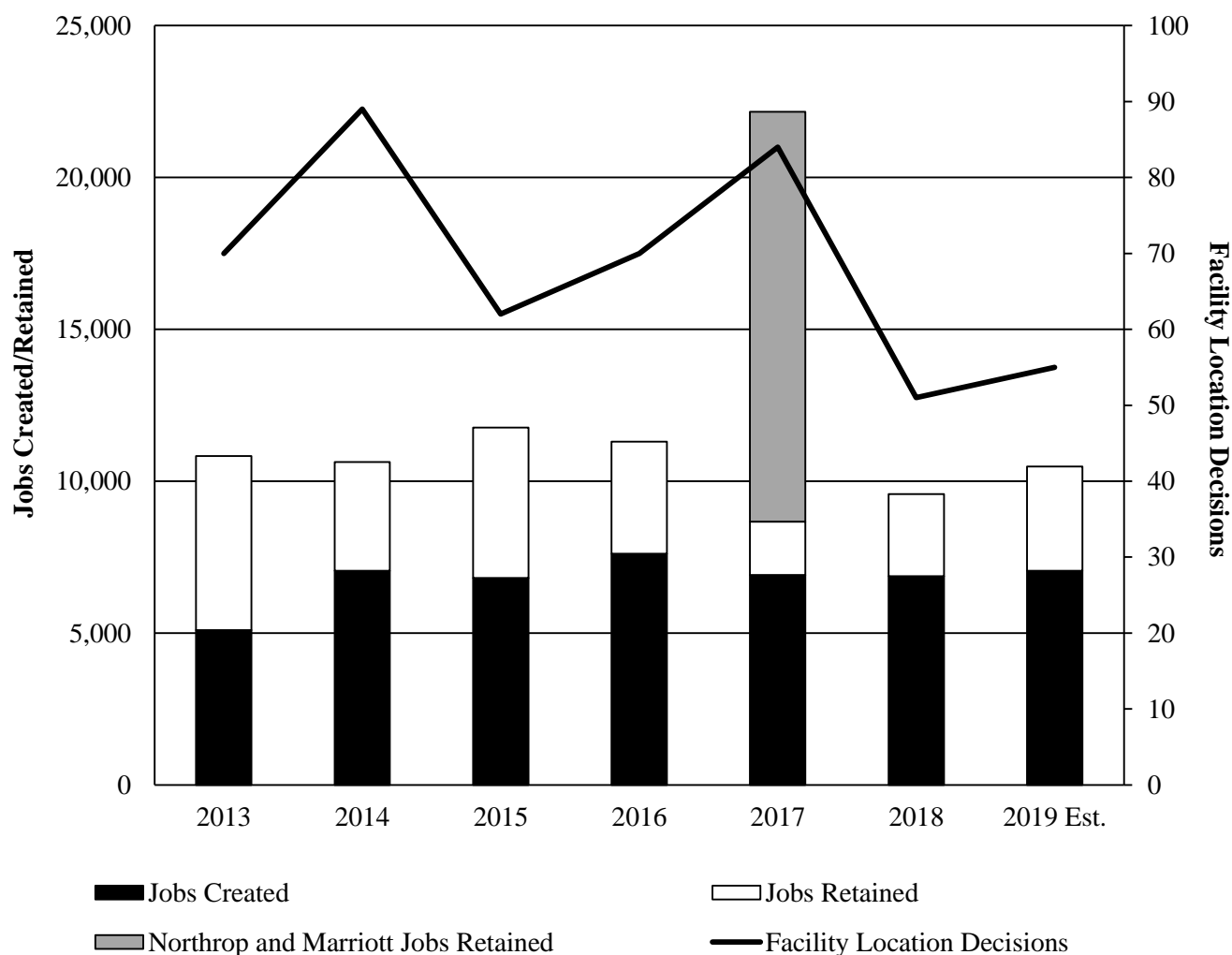
1. Department Reports Jobs Created and Retained

The department aims to develop and maintain a pipeline of projects that result in facility location decisions and other projects that create or retain jobs. A facility location decision is defined as a statement by a top-level executive indicating a company's intention to locate in Maryland or to remain or expand in Maryland after considering potential locations outside the State and after intervention by the department. That intervention can include assistance related to financing, workforce training, marketing, permitting, or technical assistance.

Exhibit 1 shows the number of facility location decisions and the number of jobs created or retained. The fiscal 2017 spike in jobs retained is due to the retention of an estimated 10,000 jobs at Northrop Grumman and an estimated 3,500 jobs at Marriott International. The State has granted Northrop Grumman a total of \$20 million from the Sunny Day Fund from fiscal 2017 to 2019 and will grant \$20 million to Marriott beginning with a \$5 million payment in fiscal 2019. For the second consecutive year, the department reported fewer jobs created in fiscal 2018 (6,868 jobs)

compared to the prior fiscal year. The number of retained jobs was reported as 2,705, lower than the 3,689 in fiscal 2016 but higher than the 1,761 jobs retained in fiscal 2017 that were not Marriott or Northrop Grumman.

Exhibit 1
Department of Commerce
Select Performance Measures
Fiscal 2013-2019 Est.



Source: Governor's Fiscal 2020 Budget Books

Fiscal 2019 Actions

Proposed Deficiencies

The fiscal 2020 budget includes a \$5 million special fund deficiency appropriation for MSBDFA to supplement funding for the program. The funds will be transferred from MIDFA. The status of MSBDFA and other small business lending programs is discussed later in this analysis.

The fiscal 2020 budget also includes a \$5 million negative deficiency appropriation for the Film Production Rebate Program. Chapter 595 of 2018 made alterations to this program including shifting it from a budgeted tax credit expense to a revenue reduction.

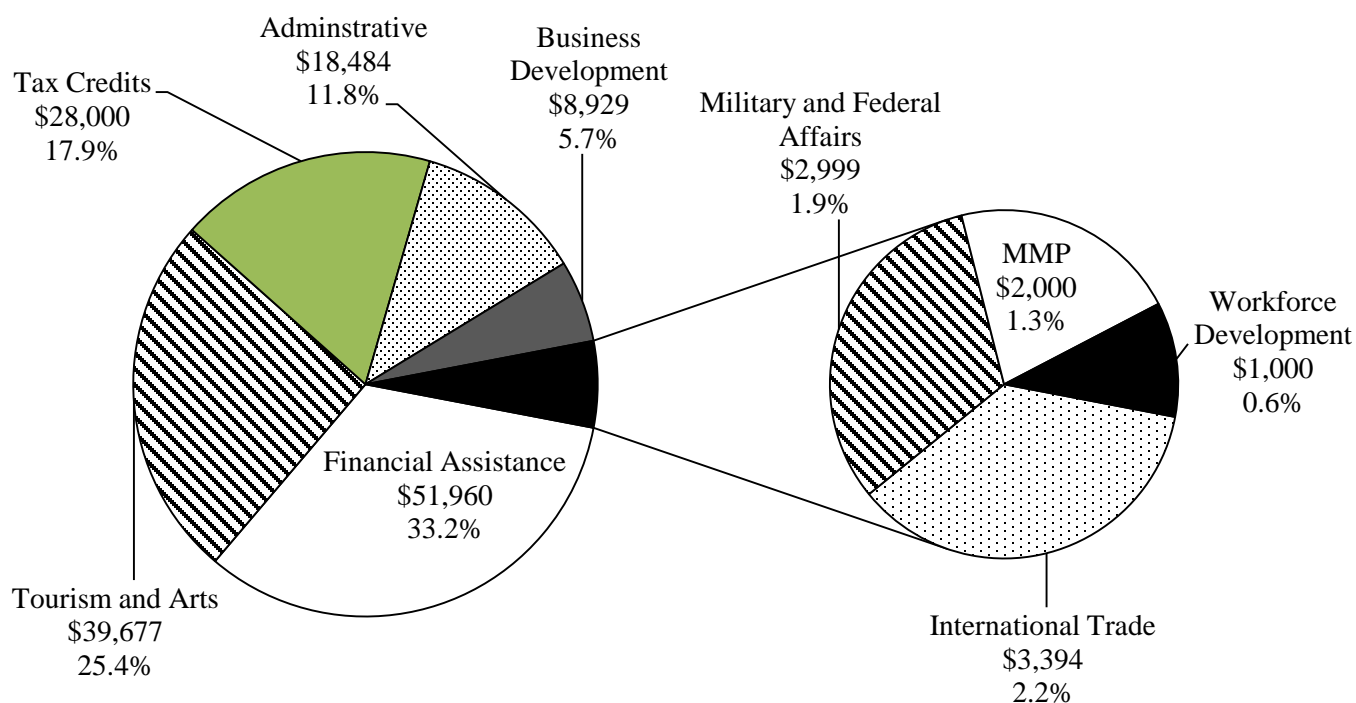
The fiscal 2020 budget also includes fiscal 2019 deficiency appropriations for the 0.5% general salary increase and a one-time \$500 bonus. The Commerce share of these amounts is \$100,956 for the bonus and \$23,874 for the salary increase.

Fiscal 2020 Allowance

Overview of Agency Spending

As noted earlier, Commerce provides assistance in many ways to Maryland businesses. **Exhibit 2** shows that approximately one-third, or \$52 million, of the fiscal 2020 allowance is dedicated to programs that provide financial assistance in the form of grants or loans to businesses. Another quarter of the allowance, or \$39.7 million, is dedicated to promoting tourism and the arts in the State. Another significant portion of the allowance (\$28 million) goes toward tax credits, such as the More Jobs for Marylanders tax credits.

Exhibit 2
Department of Commerce Expenditures by Purpose
Fiscal 2020
(\$ in Thousands)



MMP: Maryland Marketing Partnership

Note: Includes general funds budgeted in the State Reserve Fund for the Economic Development Opportunities Program Account, also known as the Sunny Day Fund.

Source: Governor's Fiscal 2020 Budget Books

Proposed Budget Change

Including deficiencies, the fiscal 2020 allowance decreases by \$7.5 million, or 4.6%. General funds grow by \$1.3 million, or 1.3%, as shown in **Exhibit 3**.

Exhibit 3
Proposed Budget
Department of Commerce
(\$ in Thousands)

How Much It Grows:	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Total</u>
Fiscal 2018 Actual	\$84,045	\$39,381	\$2,182	\$125,608
Fiscal 2019 Working Appropriation	95,638	67,452	1,498	164,589
Fiscal 2020 Allowance	<u>96,929</u>	<u>56,591</u>	<u>3,544</u>	<u>157,064</u>
Fiscal 2019-2020 Amount Change	\$1,291	-\$10,861	\$2,046	-\$7,525
Fiscal 2019-2020 Percent Change	1.3%	-16.1%	136.5%	-4.6%

Where It Goes:**Personnel Expenses**

General salary increase (3%) and annualization of fiscal 2019 0.5% increase.....	\$598
Workers' compensation premium assessment	303
Retirement contributions.....	188
Employee and retiree health insurance	110
Regular earnings including annualization of fiscal 2019 general salary increase	93
Turnover adjustments	5
Reclassification	-49
Fiscal 2019 \$500 bonus	-101
Other fringe benefit adjustments.....	7

More Jobs for Marylanders Act

Expansion of tax credits to Opportunity Zones	6,000
Reduction of existing tax credit program funding	-2,000

Financial Assistance Programs

Increased funding for MEDAAF	3,000
One-time additional funding in fiscal 2019 for the Maryland E-Innovation Initiative Program	-1,000
Fiscal 2019 deficiency appropriation for MSBDFA.....	-5,000

New Federal Grants

Federal defense industry grants	1,489
Federal grant for expansion of State export businesses	523

T00 – Department of Commerce

Where It Goes:

Tourism and Arts

Formula funding for Maryland State Arts Council.....	1,661
Maryland Tourism Board.....	493

Sunny Day Fund

Special fund payments from Sunny Day Fund	-5,000
General fund deposits to Sunny Day Fund	-10,000

Other changes

DoIT services allocation partially offset by DBM paid telecommunications due to a statewide change in costs allocated for these activities	1,356
Other changes	-201

Total	-\$7,525
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DBM: Department of Budget and Management

DoIT: Department of Information Technology

MEDAAF: Maryland Economic Development Assistance Authority and Fund

MSBDFA: Maryland Small Business Development Financing Authority

Sunny Day Fund: Economic Development Opportunities Account

Note: Numbers may not sum to total due to rounding.

Personnel

Personnel costs increase by \$1.15 million in the fiscal 2020 allowance compared to the working appropriation. The largest portion of the increase is the nearly \$600,000 for the fiscal 2020 salary increase and the annualization of the fiscal 2019 increase.

Department of Information Technology Changes Funding Model

The Department of Information Technology is moving to a fee-for-service funding model that results in increased costs at many State agencies. At Commerce, the change in funding model results in an increase of nearly \$1.4 million.

Sunny Day Fund

The Sunny Day Fund provides conditional loans and investments to take advantage of economic development opportunities defined, in part, as those situations that create or retain substantial numbers of jobs and where considerable private investment is leveraged.

The program consists of an account in the State Reserve Fund from which funds are appropriated to a program at Commerce. The fiscal 2020 allowance includes \$5 million in general funds

for the account, a decline of \$10 million from fiscal 2019. That \$10 million was to be used as a part of a package of incentives to attract Amazon to locate its second headquarters in the State. The fiscal 2020 allowance also includes \$5 million in special funds (a reduction of \$5 million) to be used as the second of four payments totaling \$20 million to Marriott International as part of a retention incentive to the company.

As shown in **Exhibit 4**, the Sunny Day Fund is overfunded by \$15 million through fiscal 2020 and by \$5 million when future commitments are included. **The Department of Legislative Services (DLS) recommends deleting the \$5 million general fund allowance to the Economic Development Opportunities Program Account in the State Reserve Fund.**

Exhibit 4
Sunny Day Fund Annual Appropriations
Fiscal 2016-2020

<u>Years</u>	<u>General Funds</u>	<u>Purpose</u>	<u>Special Funds</u>	<u>Purpose</u>
2016	\$20,000,000	Northrop Grumman incentive	\$0	
2017	5,000,000	Marriott International incentive	10,000,000	Two Northrop Grumman payments
2018	0		5,000,000	Payment to Marriott
2019	15,000,000	Marriott International and Amazon incentives	10,000,000	Two Northrop Grumman payments
2020 Allowance	5,000,000	Marriott International incentive	5,000,000	Payment to Marriott
Total through 2020	\$45,000,000		\$30,000,000	
Future Commitments			\$10,000,000	Marriott commitments
Total Including Future Commitments	\$45,000,000		\$40,000,000	

Source: Governor's Fiscal 2020 Budget Books

Business Lending Programs

Two of Commerce’s business lending programs see significant changes in the fiscal 2020 allowance, and the third faces a third straight year of no funding.

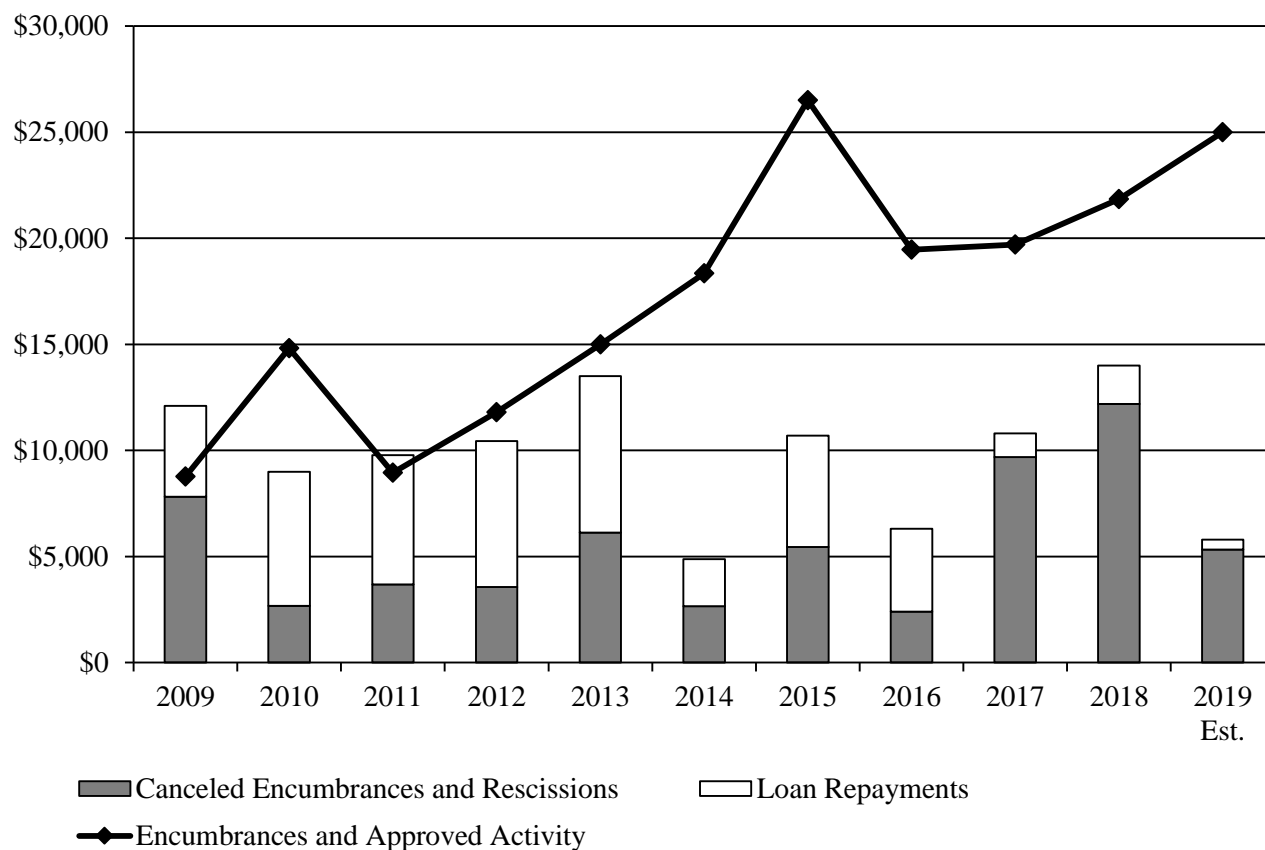
MSBDFA

The fiscal 2020 allowance for MSBDFA declines by \$5 million due to additional funds provided in fiscal 2019 due to a deficiency appropriation noted earlier. Excluding the deficiency appropriation, the program is level-funded with the fiscal 2019 amount of \$1.5 million in general funds and \$3.4 million in special funds. MSBDFA is designed to provide financing options for small businesses that are not able to qualify for financing from private lending institutions or are owned by socially and economically disadvantaged persons. The Dodd-Frank federal banking regulations bill has limited commercial bank flexibility in underwriting and credit management practices, leading them to turn away loans that may have previously qualified. MSBDFA is the only Commerce program with multiple capabilities (surety bonds, loan guarantees, lines of credit, and term loans) that can serve existing and start-up businesses that the private market will not support. In addition, a reduction in SWMOBA funding and increased demand for the SWMOBA (discussed further in this analysis) has driven demand to MSBDFA.

MEDAAF

MEDAAF is the department’s primary and most flexible tool for business financial assistance. The fiscal 2020 allowance includes \$25 million in special funds and \$3 million in general funds. The fiscal 2019 allowance included no general funds. Special funds are largely a result of loan repayments or cancellations of previously encumbered loans. **Exhibit 5** shows activity in the program since fiscal 2009. Loan repayments increased in fiscal 2019 to \$1.8 million, although that is still more than \$1 million below the average of the prior five years.

Exhibit 5
MEDAAF Encumbrances and Repayments
Fiscal 2009-2019 Est.
(\$ in Thousands)



MEDAAF: Maryland Economic Development Assistance Authority and Fund

Source: Governor's Fiscal 2020 Budget Books

The annual average general fund capitalization of the fund from fiscal 2014 through 2018 was \$8.5 million. MEDAAF had built a significant balance, but the lack of fiscal 2019 capitalization and high estimated activity levels in fiscal 2019 and 2020 mean that the fund balance is anticipated to close at \$2.2 million, as shown in **Exhibit 6**. However, it is worth noting that those estimates of activity are more than \$3.8 million higher than the average of the actual activity of the prior five years, and the estimated canceled encumbrances (a source of revenue) is approximately \$1 million less in each of fiscal 2019 and 2020. If past trends continued, the additional general fund allowance would not be necessary.

Exhibit 6
MEDAAF Balance Statement
Fiscal 2017-2020 Est.
(\$ in Thousands)

	<u>Actual</u> <u>2017</u>	<u>Actual</u> <u>2018</u>	<u>Est.</u> <u>2019</u>	<u>Est.</u> <u>2020</u>
Beginning Balance	\$234	\$14,008	\$29,078	\$14,088
Revenues				
General Funds	\$13,523	\$13,823	\$0	\$3,000
Loan Repayments	1,122	1,811	463	488
Loan Recoveries and Grant Repayments	4,854	2,915	1,928	1,928
Interest Income	165	156	139	132
Investment Income	516	673	572	591
Brownfields Local Property Tax Cont.	1,721	4,815	2,928	3,000
Investment Liquidation and Other Income	5,420	4,071	2,022	2,022
Canceled Prior Year Encumbrances	9,680	12,183	5,334	5,500
Total Revenues	\$37,001	\$40,447	\$13,386	\$16,661
Total Funds Available	\$37,235	\$54,455	\$42,464	\$30,749
Expenditures				
Encumbrances/Approval Activity – Other	\$19,693	\$21,845	\$25,000	\$25,000
Operating Expenses	561	528	550	551
Indirect Expenses	2,973	3,004	2,826	2,998
Total Expenditures	\$23,227	\$25,377	\$28,376	\$28,549
Ending Balance	\$14,008	\$29,078	\$14,088	\$2,200

MEDAAF: Maryland Economic Development Assistance Authority and Fund

Note: Numbers may not sum to total due to rounding.

Source: Governor's Fiscal 2020 Budget Books

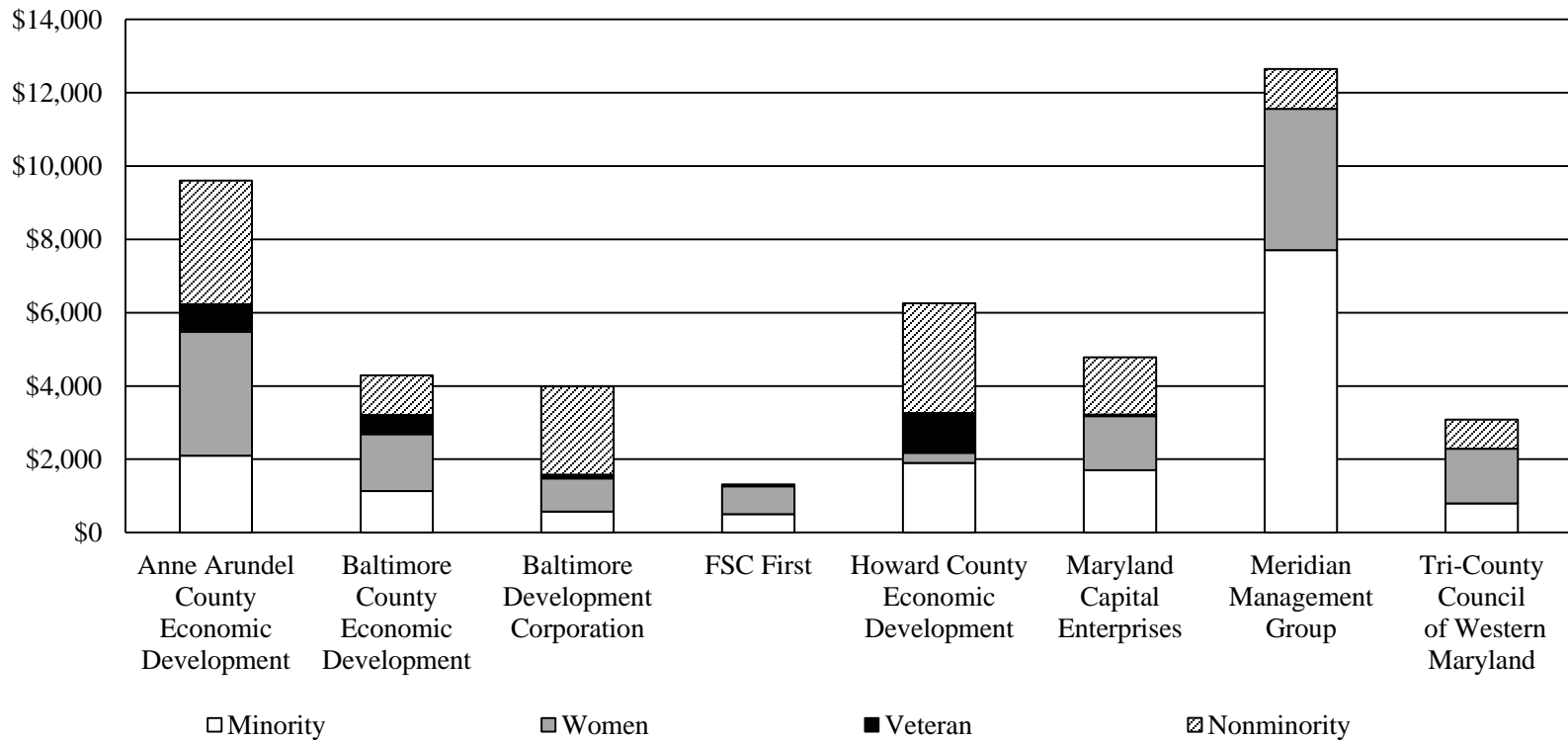
It should be noted that special funds within MEDAAF are used to defray other departmental operating costs shown as indirect expenses in the fund balance summary. The department uses special funds for a variety of its financing programs to pay the centralized costs required to administer the programs. **Due to the anticipated fund balance at the close of fiscal 2020 as well as the department's aggressive estimates of activity and canceled encumbrances, DLS recommends reducing the general fund allowance for MEDAAF by \$2 million.**

SMWOBA

Statute requires that 1.5% of the proceeds from video lottery terminal-authorized locations across the State be deposited in SMWOBA. However, Chapter 23 of 2017 (the Budget Reconciliation and Financing Act (BRFA)) redirected those funds in fiscal 2018 through 2020 to instead be used for educational purposes. Therefore, there is no allowance in the budget for this program. SB 277 and HB 688 would repeal that redirection of funding. The account is designed to provide capital investments and loans for small, minority, and women-owned businesses that are located primarily in the areas of the State with gaming facilities. **Exhibit 7** shows the breakdown of SMWOBA-approved transactions since the program's inception, both by fund manager and by type of business assisted.

According to the department, fund managers, as of February 2019, have just over \$5 million combined in the checking accounts that they control. In addition, there is approximately \$11.6 million available to Commerce to disburse to the fund managers. The recent average of approved transactions in the program is approximately \$11 million annually. Additionally, the Department of Housing and Community Development is still in control of approximately \$2 million that it is using for loans to assist businesses affected by the Ellicott City flooding in 2016. These funds will be returned to SMWOBA as the Ellicott City loans are repaid. The department notes that the recent diversion of funding to the program has created uncertainty and slowed loan activity by fund managers as they become more conservative in their decision making. Additionally, the lack of funding has prevented the program from adding one or more fund managers in an effort to expand the reach of the program.

Exhibit 7
SMWOBA – Fund Managers Approved Transactions Since Program Inception
 (\$ in Thousands)



SMWOBA: Small, Minority, and Women-Owned Businesses Account

Source: Department of Commerce

Arts Council Formula

By statutory mandate, general funds allocated to the Maryland State Arts Council (MSAC) are required to grow each year by the expected percentage of growth in general fund revenues. Chapter 145 of 2016 increased available funding to MSAC by changing the allocation of admissions and amusement (A&A) tax revenues that were distributed to the Special Fund for Preservation of Cultural Arts (POCA) in Maryland. Chapter 145 specified that revenue attributable to a 5% State A&A tax rate on electronic bingo and electronic tip jars be disbursed so that up to an aggregate amount of \$1.0 million in each fiscal year goes to the Special Fund for POCA, and the remainder is distributed to MSAC, instead of all of the revenue going to POCA. Any funds distributed to MSAC from the A&A tax must be included in MSAC's prior fiscal year appropriation for purposes of calculating the required mandated general fund appropriation. The BRFA of 2017 placed a sunset of fiscal 2021 on diverting A&A tax revenue to MSAC and in determining the allowance to MSAC. Beginning in fiscal 2022, revenue from the A&A tax from certain electronic bingo machines will remain in the Special Fund for POCA rather than be distributed to MSAC.

The fiscal 2020 allowance includes \$22.4 million in general funds for MSAC, which is an increase of nearly \$1.7 million but approximately \$15,000 less than what current law requires, as shown in **Exhibit 8**. The exhibit also shows the rapid growth in general funds for the program through fiscal 2021, followed by a return to growth rates of 3.1% in fiscal 2022 after the end of the inclusion of POCA funds.

Exhibit 8
 Maryland State Arts Council Funding
 Fiscal 2018-2024
 (\$ in Thousands)

	<u>2018 Actual</u>	<u>2019 Working</u>	<u>2020 Allowance</u>	<u>2021 Forecast</u>	<u>2022 Forecast</u>	<u>2023 Forecast</u>	<u>2024 Forecast</u>
Current Law							
General Funds	\$18,070	\$20,753	\$22,418	\$24,098	\$24,855	\$25,754	\$26,690
Special Funds	2,000	1,000	1,000	1,000	0	0	0
Total	\$20,070	\$21,753	\$23,418	\$25,098	\$24,855	\$25,754	\$26,690
General Fund Growth Rate		14.8%	8.0%	7.5%	3.1%	3.6%	3.6%
Actual Allowance							
General Funds	\$18,070	\$20,753	\$22,402	\$24,082	\$24,838	\$25,737	\$26,673
Special Funds	2,000	1,000	1,000	1,000	0	0	0
Total	\$20,070	\$21,753	\$23,402	\$25,082	\$24,838	\$25,737	\$26,673
Difference from Law	\$0	\$0	-\$15	-\$16	-\$16	-\$17	-\$18

Source: Governor’s Fiscal 2020 Budget Books

State Awarded Three Defense Industry Grants

The fiscal 2020 allowance increases by \$1.5 million in the Office of Military and Federal Affairs due to the receipt of three new federal grants. The grants will fund initiatives to diversify the State's defense supply chain, subsidies for cybersecurity compliance assessments, and an expansion of the Defense Technology Commercialization Center from the Aberdeen Proving Ground to the Fort Detrick and the Fort Meade areas. The effort is part of an endeavor to provide a commercialization and entrepreneurial network surrounding technology developed at military sites. The grants actually total just over \$3 million in federal funds, but the full amounts of the grants were not known at the time of the budget submission. Full grant amounts will be added by budget amendment.

Issues

1. Impact of More Jobs for Marylanders Act Less Than Estimated

Chapter 149 of 2017, also known as the More Jobs for Marylanders Act, established the More Jobs for Marylanders Program, to be administered by Commerce. The law creates several tax incentives for manufacturing businesses that locate in certain jurisdictions. New businesses in Baltimore City and Allegany, Dorchester, Somerset, and Worcester counties (Tier 1 counties under the law) are eligible for a variety of incentives. The Secretary of Commerce has also designated Baltimore, Prince George's, and Washington counties as Tier 1 counties under authority granted by the legislation; all other counties are Tier 2 counties.

New businesses in Tier 1 jurisdictions get a refundable State income tax credit of 5.75% of the wage of each new position, a State property tax credit, a refund of sales and use tax, and the waiver of the State Department of Assessments and Taxation fees if the business creates at least 5 new jobs. Existing businesses in the State receive a refundable State income tax credit of 5.75% of the wage per new position if 5 jobs (in Tier 1 locations) or 10 jobs (in Tier 2 locations) are created. The incentives are for a 10-year period. The fiscal 2020 allowance includes \$7 million for the credits and \$1 million for the sales and use tax refunds, all in general funds. Across fiscal 2019 through 2020, the income tax credit appropriation would total \$16 million.

According to the annual report for the More Jobs for Marylanders Tax Credit Reserve Fund, through the close of fiscal 2018, Commerce received 25 qualified applicants, 20 applicants that required further information, and 74 notices of intent from firms intending to apply for the tax credits. The department also provided DLS with information regarding further applicants that would qualify for \$4.1 million in additional credits for a total of \$9.4 million in tax credit expenditures across fiscal 2019 through 2020. The department's estimate of tax credit usage by companies that submitted notices of intent (NOI) was \$2.6 million. However, it is unclear how many of those new applicants were companies that had submitted NOIs in fiscal 2018. It should also be noted that a company must wait 12 months after submitting their NOI before submitting an application to Commerce.

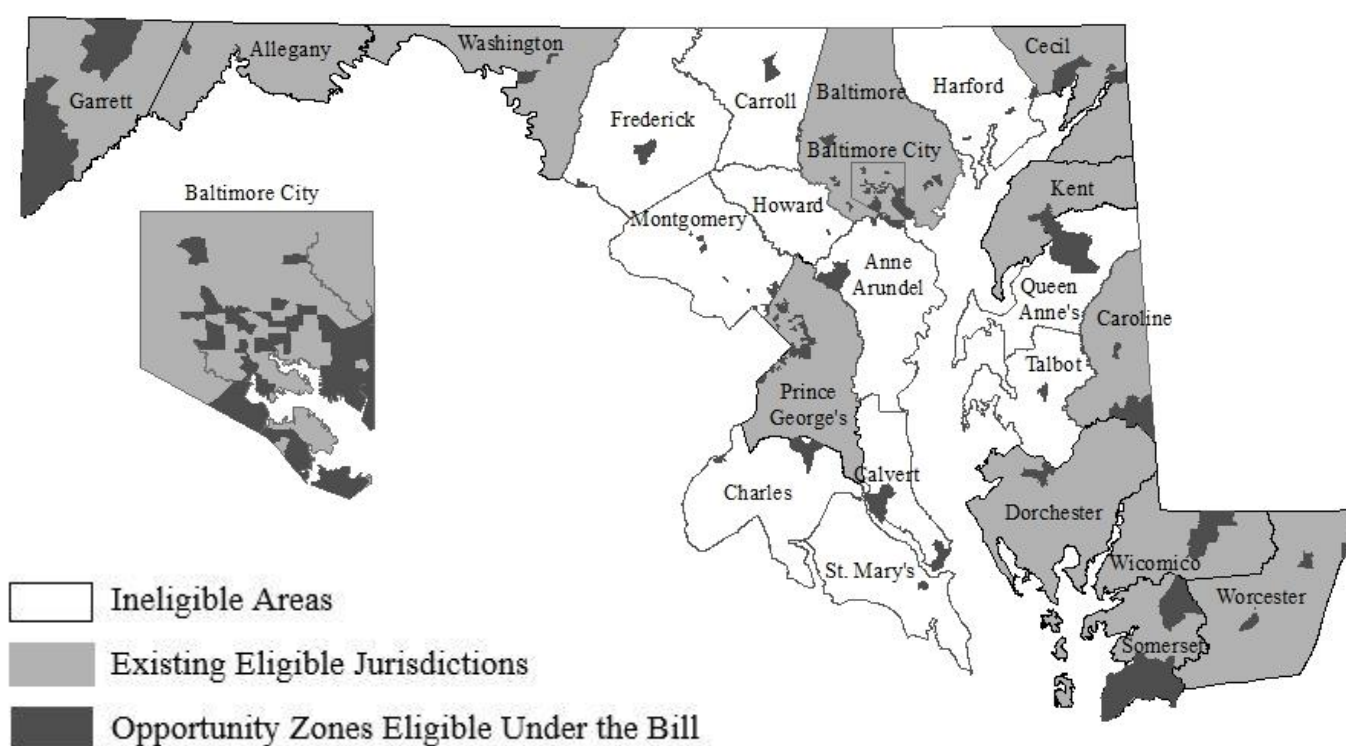
Interestingly, the report stated that the jobs being created by companies applying for the tax credit pay salaries much lower than had been estimated at the establishment of the program. In its initial estimate when creating the program, Commerce used the average wage of the manufacturing sector in Maryland of \$73,788. However, the actual average salary of jobs submitted by tax credit applicants was approximately \$40,000. **The department should comment on why the actual average salary of jobs submitted by tax credit applicants is significantly lower than the department's estimates.**

More Jobs for Marylanders Expansion

SB 174 and HB 150 are Administration bills that would expand the program to businesses that locate or expand in opportunity zones in the State, eliminate the manufacturing business requirement

in the opportunity zones, increase the maximum amount of tax credits to be awarded by the State from \$9 million annually to \$13.5 million, and extend the life of the program by 10 years to fiscal 2030. As shown in **Exhibit 9**, the legislation's geographic expansion would only have an impact in limited areas of Anne Arundel, Calvert, Carroll, Charles, Frederick, Harford, Howard, Montgomery, Queen Anne's, St. Mary's, and Talbot counties. All other counties are already eligible under existing law. The fiscal 2020 allowance includes \$6 million for this expansion for a total of \$22 million for the income tax credits across fiscal 2019 through 2020.

Exhibit 9 More Jobs for Marylanders Act Proposed Geographic Eligibility Changes



Source: Department of Legislative Services

Based on the reported usage of the income tax credit program to date, the assumption that half of the companies that submitted NOIs are either duplicated in application data provided or would not submit an application prior to the end of fiscal 2020, and the available fund balance, DLS recommends reducing the allowance for the More Jobs for Marylanders Act by \$5 million. In addition, due to the relatively small area of expansion into opportunity zones and the related overestimate of jobs and salaries of the potential qualifying jobs for the existing program, DLS

recommends reducing the More Jobs for Marylanders Act – Opportunity Zone program by \$3 million. DLS also recommends making the remaining \$3 million in the Opportunity Zone program allowance contingent on passage of SB 174 or HB 150.

As shown in **Exhibit 10**, the proposed reduction would allow for a balance of more than \$245,000 to remain in the fund.

Exhibit 10
More Jobs for Marylanders Act Tax Credit Usage and Allowance
Fiscal 2019-2020

	<u>2019</u>	<u>2020</u>	<u>Jobs</u>
Starting Available Funds	\$0	\$6,835,847	
Funding			
More Jobs for Marylanders Income Tax Credit Funding	9,000,000	7,000,000	
More Jobs for Marylanders Opportunity Zone Funding		6,000,000	
Subtotal	\$9,000,000	\$19,835,847	
Expenses			
Qualified and Unqualified Applicant Tax Credits (June 2018)	\$2,164,153	\$3,156,992	1,892
Additional Applications (February 2019)		4,133,039	1,442
NOI Assumed Usage		1,300,000	
Opportunity Zone Assumed Usage		3,000,000	
Subtotal	\$2,164,153	\$11,590,031	3,334
End-of-year Funds Available	\$6,835,847	\$8,245,816	
DLS Proposed Reductions		\$8,000,000	
Proposed End-of-year Funds Available		245,816	

DLS: Department of Legislative Services

NOI: Notice of Intent

Source: Governor's Fiscal 2020 Budget Books; Department of Commerce

2. Maryland Marketing Partnership

Chapter 141 of 2015 established a public-private marketing corporation called MMP to create a branding strategy for the State, market the State's assets to out-of-state businesses, recruit out-of-state businesses to locate and grow in the State, and foster public-private partnerships (P3) that encourage the location and development of new businesses in the State. As a P3, MMP is partially funded by donations from businesses. As part of its efforts to raise money from the private sector, the department is touting several benefits to contributors, such as access to meetings with the Secretary and Governor and participation in select trade missions. The budget committees were concerned about this and requested a report on donors to the P3 as well as an opinion from the State Ethics Commission on Commerce's fundraising efforts.

Donors

As shown in **Exhibit 11**, 37 donors have committed a total of \$4.7 million in agreements that continue through calendar 2021.

Exhibit 11 Maryland Marketing Partnership Donors Calendar 2016-2021

<u>Contributors</u>	<u>Total Commitment</u>
Alban CAT	\$50,000
Baltimore Gas and Electric Company	1,000,000
Bozzuto	50,000
Brown Advisory	75,000
CISCO Systems, Inc.	50,000
Clark Construction	50,000
CyberCore Technologies	30,000
Donohoe	50,000
Ellin & Tucker	50,000
H&S Bakery, Inc.	75,000
H&S Properties Development Corporation	75,000
Harkins Builders, Inc.	40,000
Howard Bank	100,000
Howard Hughes	250,000
J J Haines and Company, LLC	50,000
Kaiser Permanente	50,000
Kelly & Associates Insurance Group, Inc.	75,000

T00 – Department of Commerce

<u>Contributors</u>	<u>Total Commitment</u>
Legg Mason	100,000
Maryland Economic Development Corporation	150,000
M & T Bank	75,000
McCormick & Company, Inc.	225,000
MedStar Health	50,000
Merritt Properties	75,000
Miles & Stockbridge, P.C.	50,000
PNC Bank	15,000
Perdue Farms, Inc.	150,000
Peterson Companies ⁽¹⁾	100,000 value
Royal Farms, Inc.	60,000
St. John Properties	250,000
T. Rowe Price	100,000
Tradepoint Atlantic	250,000
Transamerica Corporation	250,000
Weller	100,000
University of Maryland Medical Systems	100,000
Wexford Science and Technology	50,000
Whiting – Turner	500,000
W.R. Grace and Company	100,000
Total	\$4,770,000

⁽¹⁾ Peterson Companies provided an in-kind contribution that is not included in the total.

Source: Department of Commerce

Ethics Letter

The budget committees requested an advice letter from the State Ethics Commission regarding the benefits provided to donors to MMP. However, with the agreement of legislative staff, the focus of the request was more specifically defined to address a published commission memorandum on agency fundraising as it applies to P3s.

While State ethics laws only pertain to individuals and not agencies, and the commission has generally viewed agency fundraising as a policy issue to be determined by the agency, the commission has previously provided advice through its memorandum and in response to requests regarding employee activities while carrying out fundraising for State agencies. The commission notes that there are competing interests of allowing agencies to make policy decisions while ensuring that employees abide by Ethics Law. In its guidance, the commission notes that there are several factors to take into

consideration, one of which is that it should be made clear to those that solicited for donations that making a contribution will not confer any special access or benefit in their dealings with the State.

While not advising specifically on MMP's fundraising efforts, the commission did note that MMP may reasonably believe that the offered incentives are necessary to obtain private-sector contributions and sponsorships for the program, that it may be helpful for the General Assembly to define the scope of benefits to be offered, and to provide clarification regarding the manner that it believes that agency personnel should conduct these types of fundraising activities.

Independent Corporation

MMP is designated in statute as an instrumentality of the State and is intended to be an independent corporation overseen by a board of directors and executive director. The previous Secretary of Commerce served as the Chair of the Board of Directors. However, the incoming Secretary will not be serving in that role. The board is meeting this month to elect a new chair, and the acting executive director is also Commerce's director of marketing. While statute notes that the Secretary monitors the operations of MMP, it also notes that it may not be construed to limit the independence of the corporation. In addition, the corporation is budgeted as a program within Commerce's budget. **DLS recommends either (1) the General Assembly adopt legislation to conform to current budgeting practice; or (2) MMP be budgeted as a separate corporation as are similar entities like the Maryland Technology Development Corporation and the Maryland Economic Development Corporation.**

Operating Budget Recommended Actions

	<u>Amount Reduction</u>	
1. Reduce funding for the Maryland Economic Development Assistance Authority and Fund due to existing fund balance and aggressive estimates of activity and canceled loan encumbrances.	\$ 2,000,000	GF
2. Reduce funding for the More Jobs for Marylanders income tax credit program due to available fund balance and lower than anticipated usage.	5,000,000	GF
3. Add the following language to the general fund appropriation: <u>, provided that this entire appropriation shall be contingent on the enactment of SB 174 or HB 150.</u>		

Explanation: This action would make funding for the More Jobs for Marylanders – Opportunity Zone expansion contingent on the enactment of legislation expanding the program.

	<u>Amount Reduction</u>	
4. Reduce funding for the More Jobs for Marylanders Act – Opportunity Zone program expansion due to the overestimated impact of the expansion of the program.	3,000,000	GF
5. Delete the general fund allowance for the Economic Development Opportunities Program Account as the fund balance is sufficient to meet current obligations.	5,000,000	GF
Total General Fund Reductions	\$ 15,000,000	

Updates

1. Grants

The department awarded \$27.5 million in grants in fiscal 2018, as shown in **Exhibit 12**. The exhibit also shows another \$27.3 million being disbursed in the current fiscal year as well as a planned \$32.2 million in fiscal 2020.

Exhibit 12 Summary of Major Grants Fiscal 2018-2020

	Actual <u>2018</u>	Estimated Appropriation <u>2019</u>	Allowance <u>2020</u>
Office of the Secretary and Business and Industry Sector Development			
International Trade and Development Grants			
Maryland Israel Development Corporation	\$330,319	\$300,000	\$275,000
World Trade Center Institute	120,000	240,000	240,000
Export Maryland – Small Business Foreign Trade Grants	471,139	215,000	650,000
Military/Federal and Base Realignment and Closure Assistance Grants			
Southern Maryland Navy Alliance	26,334	40,000	40,000
Army Alliance	26,333	40,000	40,000
Montgomery County – White Oak	15,333	15,333	15,333
Fort Meade Alliance	26,334	40,000	40,000
Fort Detrick Alliance	21,583	40,000	40,000
Maryland Maritime Alliance	28,833	40,000	40,000
Military Alliance Council (Charles County)	24,000	40,000	40,000
Andrews Air Force Base, Business Roundtable of Prince George’s County	26,333	40,000	40,000
To Be Determined (TBD) Per Federal Grant			813,318
Towson Regional Economic Studies Institute	228,090		
Regional Council Grants			
Tri-County Council of Western Maryland	200,000	200,000	200,000
Tri-County Council of Southern Maryland	200,000	200,000	200,000
Mid-Shore Regional Council	200,000	200,000	200,000
Tri-County Council Lower Shore	200,000	200,000	200,000
Upper Shore Regional Council	200,000	200,000	200,000

Analysis of the FY 2020 Maryland Executive Budget, 2019

T00 – Department of Commerce

	Actual <u>2018</u>	Estimated Appropriation <u>2019</u>	Allowance <u>2020</u>
Technology and Strategic Industries Support			
Technology Council of Maryland	75,000	75,000	75,000
Betamore	20,000	20,000	20,000
Northeastern Maryland Technology Council	15,000	15,000	15,000
Carroll County Technology Council	7,500	7,500	7,500
Howard County Technology Council	10,000	10,000	10,000
Regional Additive Manufacturing Partnership	15,000	15,000	15,000
Regional Manufacturing Institute	30,000	30,000	30,000
Maryland Business Incubator Association	10,000	10,000	10,000
Emerging Technology Centers	15,000	15,000	15,000
Startup Maryland	15,000	15,000	15,000
Economic Alliance of Greater Baltimore – BioPharma	62,000	62,000	62,000
Manufacturing Extension Partnership	220,000	220,000	220,000
Maryland Technology Council, Inc. ImMD platform		200,000	200,000
Cybersecurity Specific Grants			
Cybersecurity Association of Maryland	34,000	34,000	34,000
Maryland Technology Development Corporation	100,000		
Federal Business Council, Inc.	25,000		
Miscellaneous Grants to Cyber Industry		150,000	150,000
Other Grants			
Partnership for Workforce Quality	1,050,000	1,000,000	1,000,000
Maryland Public Private Partnership	1,150,000	0	
National Veterans Institute for Procurement	150,000	150,000	150,000
Maryland – Procurement Technical Assistance Program	140,000	0	0
Economic Alliance of Greater Baltimore	46,500	62,000	62,000
Governor’s Workforce Investment Board	0	55,647	30,000
University of Maryland – Small Business Development Center	85,400	0	0
Not-For-Profit Development Fund Grants	73,890	150,000	150,000
Appalachian Regional Commission	15,500	16,500	16,500
Grants Total from Office of Secretary and Business and Industry Sector Development	\$5,709,421	\$4,362,980	\$5,560,651

Analysis of the FY 2020 Maryland Executive Budget, 2019

T00 – Department of Commerce

	Actual 2018	Estimated Appropriation 2019	Allowance 2020
Division of Tourism, Film, and the Arts			
Tourism			
Capital Region USA, Inc.	\$400,000	\$400,000	\$400,000
Maryland Tourism Coalition	40,000	40,000	40,000
County Cooperative Grants (Various Recipients – Amounts TBD)			2,500,000
Allegany	29,445	28,072	
Anne Arundel	323,629	155,542	
Baltimore City	319,117	362,777	
Baltimore County	100,088	24,475	
Calvert	20,000	42,728	
Caroline	21,390	20,468	
Carroll	33,457	51,045	
Cecil	39,374	38,305	
Charles	60,246	32,775	
Dorchester	48,687	58,879	
Frederick	62,616	222,589	
Garrett	96,331	73,372	
Harford	46,847	72,994	
Howard	60,199	48,530	
Kent	40,442	47,728	
Montgomery	83,092	87,365	
Prince George's	165,003	350,464	
Queen Anne's	26,583	49,012	
Somerset	33,030	21,632	
St. Mary's	52,909	23,832	
Talbot	59,096	59,125	
Washington	47,135	87,847	
Wicomico	52,674	42,675	
Worcester	102,931	140,607	
Ocean City	575,677	373,225	
Various Other Tourism Grants	222,000	200,000	750,000
Subtotal – Tourism	\$3,161,998	\$3,156,063	\$3,690,000

Analysis of the FY 2020 Maryland Executive Budget, 2019

T00 – Department of Commerce

	Actual <u>2018</u>	Estimated Appropriation <u>2019</u>	Allowance <u>2020</u>
Maryland State Arts Council (MSAC) – Grants for Organization (GFO)			
Academy Art Museum	\$120,626	\$127,167	
Access Art	27,210	31,741	
Adventure Theatre – Maryland Tourism Council	179,335	182,182	
AEMS: Arts Education in Maryland Schools Alliance	26,588	35,287	
AFI Silver Theatre and Cultural Center	180,000	210,000	
American Visionary Art Museum	201,467	206,210	
Annapolis Chorale	29,500	30,453	
Annapolis Opera Company	0	28,803	
Annapolis Symphony Orchestra	92,858	108,423	
Art League of Ocean City	30,000	34,141	
Artivate	76,760	74,777	
Artpreneurs, Inc. dba Arts on the Block	28,406	29,943	
Arts for the Aging, Inc.	27,407	33,974	
ArtStream, Inc.	38,770	39,152	
Avalon Foundation, Inc.	138,425	142,075	
Ballet Theatre of Maryland, Inc.	68,550	71,581	
Baltimore Choral Arts Society	51,949	52,588	
Baltimore Clayworks, Inc.	60,000	73,000	
Baltimore Museum of Art, The	969,159	1,132,183	
Baltimore Symphony Orchestra, Inc.	2,056,969	1,978,275	
Baltimore's Festival of The Arts, Inc.	115,000	175,000	
Bender Jewish Community Center of Greater Washington	42,029	34,838	
BlackRock Center for the Arts	81,868	100,000	
Chesapeake Arts Center	34,000	39,000	
Chesapeake Chamber Music, Inc. (Trading as Chesapeake Music)	29,782	29,125	
Center Stage Associates, Inc.	563,488	617,683	
Chesapeake Shakespeare Company	75,000	87,500	
City of Gaithersburg	54,676	60,000	
City of Greenbelt	37,263	39,339	
Columbia Center for Theatrical Arts, Inc.	40,733	39,998	
Columbia Festival, Inc.	40,000	39,605	
Common Ground on the Hill	43,313	41,671	
Concert Artists of Baltimore	31,000	0	
Dance Exchange, Inc.	32,226	37,025	
The Delaplaine Visual Arts Education Center	73,412	75,820	

Analysis of the FY 2020 Maryland Executive Budget, 2019

T00 – Department of Commerce

	<u>Actual 2018</u>	<u>Estimated Appropriation 2019</u>	<u>Allowance 2020</u>
Encore Creativity for Older Adults	0	27,160	
Everyman Theatre, Inc., The	273,768	280,302	
Fells Point Creative Alliance	146,469	164,490	
Frostburg State University	46,000	53,250	
Glen Echo Park Partnership for Arts and Culture, Inc.	140,764	147,546	
Greater Baltimore Cultural Alliance	53,636	66,911	
Hippodrome Foundation, Inc.	27,692	40,640	
Imagination Stage, Inc.	392,859	388,383	
Jewish Community Center of Baltimore/Gordon Center for Performing Arts	54,517	54,517	
Jewish Museum of Maryland	45,530	0	
Lumina Studio Theatre	0	25,820	
Maryland Ensemble Theatre	0	30,336	
Maryland Hall for the Creative Arts	169,715	176,965	
Maryland Institute College of Art	29,435	35,199	
Maryland State Boychoir, The	40,000	47,500	
Maryland Symphony Orchestra, Inc., The	107,005	112,000	
Maryland Youth Ballet	60,000	90,000	
Maryland National Capital Parks and Planning Commission (MNCPPC): Area Operations	41,255	90,027	
MNCPPC: Arts and Cultural Heritage	287,094	293,348	
Metropolitan Center for the Visual Arts	65,000	68,714	
Montgomery College – Parilla Performing Arts Center	46,000	37,000	
National Council for the Traditional Arts	49,484	51,382	
National Philharmonic	144,914	162,908	
Olney Theatre Center	400,000	440,000	
Producers Club of Maryland – Maryland Film Festival	45,384	51,878	
The Puppet Company	37,361	33,499	
Pyramid Atlantic Art Center	33,502	31,648	
Round House Theatre	232,721	285,463	
Shriver Hall Concert Series	41,046	39,339	
Strathmore Hall Foundation, Inc.	800,512	955,785	
The Lyric Foundation, Inc.	320,000	320,000	
University of Maryland – Clarice Smith Performing Arts Center	409,194	450,000	
University of Maryland Baltimore County – Center for Art, Design, and Visual Culture	40,331	42,705	
University of Maryland, College Park – David C Driskell Center	35,521	36,992	

Analysis of the FY 2020 Maryland Executive Budget, 2019

T00 – Department of Commerce

	Actual 2018	Estimated Appropriation 2019	Allowance 2020
Walters Art Museum, The	1,039,418	1,055,422	
Ward Museum of Wildfowl Art, The	70,898	87,283	
Washington County Museum of Fine Arts	88,197	88,969	
Waterfowl Revels, Inc.	43,000	45,000	
Waterfowl Festival, Inc.	67,129	70,377	
WBJC-FM	60,000	70,000	
Weinberg Center for the Arts/City of Frederick	119,601	131,382	
Wide Angle Youth Media	40,385	52,570	
World Arts Focus dba Joe's Movement Emporium	80,542	93,617	
Writer's Center, The	103,308	103,308	
Young Audiences of Maryland, Inc. (YAMD)	176,188	215,307	
Your Public Radio 88.1	0	36,546	
Other GFO Grants < 25,000	1,376,448	1,424,251	
TBD			\$17,434,209
Subtotal GFO	\$13,579,592	\$14,644,298	\$17,434,209
Community Arts Development			
Allegany Arts Council, Incorporated	\$120,147	\$126,103	
Arts and Humanities Council of Montgomery County	170,291	179,277	
Arts Council of Anne Arundel County, Inc.	145,753	153,122	
Arts Council of Calvert County	121,134	127,175	
Baltimore County Commission on Arts and Sciences	159,308	167,085	
Baltimore Office of Promotion and the Arts	148,143	155,191	
Caroline County Council of Arts, Inc.	118,120	124,034	
Carroll County Arts Council	125,076	131,172	
Cecil County Arts Council, Inc.	121,719	127,780	
Charles County Arts Alliance, Inc.	124,563	130,848	
Dorchester Center for the Arts, Inc.	118,089	123,978	
Frederick Arts Council, Inc.	129,201	135,821	
Garrett County Arts Council, Inc.	117,943	123,821	
Harford County Public Library – Harford County Cultural Arts Advisory Board	129,379	115,105	
Howard County Arts Council	132,795	139,542	
Kent County Arts Council	117,443	123,290	
Prince George's Arts and Humanities Council	163,283	171,410	
Queen Anne's County Arts Council, Inc.	118,950	124,927	

Analysis of the FY 2020 Maryland Executive Budget, 2019

T00 – Department of Commerce

	Actual 2018	Estimated Appropriation 2019	Allowance 2020
Salisbury Wicomico Arts Council	121,718	127,790	
Somerset County Arts Council	117,763	114,622	
St. Mary's County Arts Council	122,235	128,315	
Talbot County Arts Council, Inc.	118,348	124,244	
Washington County Arts Council, Inc.	124,180	130,357	
Worcester County Arts Council	119,079	125,030	
Various Community Arts Development Grants/TBD	0	0	\$3,104,660
<i>Subtotal Community Arts Development</i>	<i>\$3,104,660</i>	<i>\$3,103,936</i>	<i>\$3,104,660</i>
Artists in Education			
InterAct Story Theatre Education Association	\$143,000	\$65,500	
YAMD – Pellerin	29,000	0	
YAMD – Arianna Ross	35,000	0	
YAMD – Synetic Theater	33,000	0	
Young Audiences of Maryland, Inc.	40,000	234,798	
Other Arts in Education Less Than 25,000	463,550	163,550	
TBD			\$940,918
<i>Subtotal Artist in Education</i>	<i>\$743,550</i>	<i>\$463,847</i>	<i>\$940,918</i>
Individual Artist Awards			
Various Individual Artist Awards	\$250,000	\$250,000	\$200,000
Maryland Traditions			
Fells Point Creative Alliance		\$25,000	
Frostburg State University	\$25,000	25,000	
National Council for the Traditional Arts	111,262	152,500	
Ward Museum of Wildfowl Art, The	25,000	35,000	
Other Maryland Traditions Grants < 25,000	68,500	77,500	
TBD			\$260,000
<i>Subtotal Maryland Traditions</i>	<i>\$229,762</i>	<i>\$315,000</i>	<i>\$260,000</i>

Analysis of the FY 2020 Maryland Executive Budget, 2019

T00 – Department of Commerce

	<u>Actual</u> <u>2018</u>	<u>Estimated</u> <u>Appropriation</u> <u>2019</u>	<u>Allowance</u> <u>2020</u>
Other MSAC/Preservation General Funds from the Rainy Day Fund			
Maryland Science Center	\$450,000		
Arts Every Day	25,000	\$25,000	
Fusion Partnership (901 Arts)	25,000	25,000	
Great Blacks in Wax Museum			
<i>Subtotal Other MSAC</i>	<i>\$500,000</i>	<i>\$50,000</i>	
Preservation of Cultural Arts Special Funds			
Habitat for Humanity of the Chesapeake		\$100,000	
Delmarva Community Services		50,000	
Barco		200,000	
Community Services for Autistic Adults and Children		75,000	
Chesapeake Shakespeare Company		75,000	
Maryland Theatre Association		50,000	
Pact Helping Children with Special Needs		100,000	
Baltimore Symphony Orchestra	\$650,000	100,000	
TBD/Various		250,000	\$1,000,000
Total Preservation of Cultural Arts	\$650,000	\$1,000,000	\$1,000,000
Total MSAC and Preservation Grants	\$18,607,564	\$19,827,081	\$22,939,787
Total Commerce Grants	\$27,478,983	\$27,346,124	\$32,190,438

Source: Department of Commerce

Appendix 1
Current and Prior Year Budgets
Department of Commerce
(\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2018					
Legislative Appropriation	\$84,636	\$37,614	\$1,661	\$0	\$123,912
Deficiency/Withdrawn Appropriation	-343	2,538	-9	0	2,187
Cost Containment	-100	0	0	0	-100
Budget Amendments	0	838	866	0	1,703
Reversions and Cancellations	-149	-1,609	-336	0	-2,095
Actual					
Expenditures	\$84,045	\$39,381	\$2,182	\$0	\$125,608
Fiscal 2019					
Legislative Appropriation	\$100,366	\$62,381	\$1,490	\$0	\$164,236
Budget Amendments	180	43	5	0	228
Working					
Appropriation	\$100,545	\$62,424	\$1,494	\$0	\$164,464

Note: The fiscal 2019 appropriation does not include deficiencies, a one-time \$500 bonus, or general salary increases. Numbers may not sum to total due to rounding.

Fiscal 2018

Spending by the Department of Commerce in fiscal 2018 closed out \$1.7 million higher than the legislative appropriation.

General Funds

General funds finished the fiscal year approximately \$600,000 below the legislative appropriation due to the following changes:

- a \$207,606 withdrawn appropriation in Section 19 of the fiscal 2019 Budget Bill due to a surplus in the health insurance account;
- a \$135,211 negative deficiency for the transfer of the small business unit to the Department of Labor, Licensing, and Regulation; and
- a \$100,000 reduction in the Military Personnel and Service-Disabled Veteran Loan Program taken by the Board of Public Works as part of cost containment actions.

Approximately \$149,000 was reverted to the General Fund due to lower than expected costs across the department.

Special funds

Special funds were approximately \$1.8 million higher than the legislative appropriation.

The fiscal 2019 budget included deficiency appropriations of \$2.5 million for the Maryland Economic Development Assistance Authority and Fund to increase the amount of funds available for loans and \$100,000 for the Military Personnel and Service-Disabled Veteran Loan Program. Those increases were offset by a \$61,604 withdrawn appropriation in Section 19 of the fiscal 2019 Budget Bill.

Special fund amendments increased the legislative appropriation for the Preservation of Cultural Arts Program (\$650,000) and for the Nonprofit, Interest-Free, Micro Bridge Loan Account (\$187,500).

The department canceled \$480,000 in the Maryland E-Innovation Initiative Program due to a shortage of approved and qualified applicants; \$331,555 due to reduced expenses in the Office of Financing Programs, primarily due to a high turnover; and approximately \$797,000 across the rest of the department due to a variety of lower than anticipated expenses.

Federal Funds

Federal funds finished fiscal 2018 approximately \$521,000 higher than the legislative appropriation.

Amendments increased the appropriation by \$850,000 in the office of International Investment and Trade for additional grant funds from the U.S. Small Business Administration and by \$15,930 for additional grant funds in the Maryland State Arts Council (MSAC). The appropriation decreased by \$8,622 for a withdrawn appropriation Section 19 of the fiscal 2019 Budget Bill.

The department canceled approximately \$336,000, nearly all of which was due to unawarded grants in the Office of International Investment and Trade. The grants will instead be awarded in fiscal 2019.

Fiscal 2019

The fiscal 2019 legislative appropriation increased by approximately \$228,000. The increases consisted of \$129,794 in general funds, \$43,254 in special funds, and \$4,731 in federal funds for the centrally budgeted salary action taken in the fiscal 2019 Budget Bill and a \$50,000 increase for MSAC arts grants.

Appendix 2
Object/Fund Difference Report
Department of Commerce

<u>Object/Fund</u>	<u>FY 18 Actual</u>	<u>FY 19 Working Appropriation</u>	<u>FY 20 Allowance</u>	<u>FY 19 - FY 20 Amount Change</u>	<u>Percent Change</u>
Positions					
01Regular	189.00	188.00	188.00	0.00	0%
02Contractual	25.50	26.00	26.00	0.00	0%
Total Positions	214.50	214.00	214.00	0.00	0%
Objects					
01Salaries and Wages	\$ 21,534,700	\$ 21,179,150	\$ 21,835,376	\$ 656,226	3.1%
02Technical and Special Fees	1,255,423	1,363,561	1,363,561	0	0%
03Communication	487,869	464,816	329,337	-135,479	-29.1%
04Travel	653,811	646,601	625,600	-21,001	-3.2%
06Fuel and Utilities	23,093	23,438	23,438	0	0%
07Motor Vehicles	322,643	300,268	269,467	-30,801	-10.3%
08Contractual Services	10,777,632	14,143,590	16,358,557	2,214,967	15.7%
09Supplies and Materials	234,581	254,507	254,507	0	0%
10Equipment – Replacement	69,102	21,700	21,700	0	0%
11Equipment – Additional	33,361	0	0	0	0.0%
12Grants, Subsidies, and Contributions	53,912,849	74,471,376	69,764,045	-4,707,331	-6.3%
13Fixed Charges	2,447,450	2,447,356	2,449,206	1,850	0.1%
14Land and Structures	33,855,290	49,147,500	43,147,500	-6,000,000	-12.2%
Total Objects	\$ 125,607,804	\$ 164,463,863	\$ 156,442,294	-\$ 8,021,569	-4.9%
Funds					
01General Fund	\$ 84,044,697	\$ 100,545,399	\$ 96,471,321	-\$ 4,074,078	-4.1%
03Special Fund	39,380,848	62,423,970	56,442,204	-5,981,766	-9.6%
05Federal Fund	2,182,259	1,494,494	3,528,769	2,034,275	136.1%
Total Funds	\$ 125,607,804	\$ 164,463,863	\$ 156,442,294	-\$ 8,021,569	-4.9%

Note: The fiscal 2019 appropriation does not include deficiencies, a one-time \$500 bonus, or general salary increases. The fiscal 2020 allowance does not include general salary increases.

Appendix 3
Fiscal Summary
Department of Commerce

<u>Program/Unit</u>	<u>FY 18 Actual</u>	<u>FY 19 Wrk Approp</u>	<u>FY 20 Allowance</u>	<u>Change</u>	<u>FY 19 - FY 20 % Change</u>
01 Office of the Secretary	\$ 1,567,658	\$ 1,531,083	\$ 1,606,717	\$ 75,634	4.9%
02 Office of Policy and Research	1,588,499	1,643,774	1,664,081	20,307	1.2%
03 Office of the Assistant Attorney General	1,387,384	1,476,241	1,494,409	18,168	1.2%
06 Office of Business and Legislative Relations	2,401,748	2,343,092	2,641,448	298,356	12.7%
07 Office of International Investment and Trade	3,235,791	2,828,680	3,393,772	565,092	20.0%
08 Office of Administration and Technology	3,958,544	3,865,117	5,295,993	1,430,876	37.0%
09 Division of Federal Partnerships	1,854,185	1,591,646	2,999,338	1,407,692	88.4%
10 Maryland Marketing Partnership	1,000,000	2,000,000	2,000,000	0	0%
01 Division of Business and Industry Sector Development	437,346	447,086	457,399	10,313	2.3%
02 Office of BioHealth	1,256,062	1,330,990	1,172,619	-158,371	-11.9%
03 Maryland Small Business Development Financing Authority	1,805,856	1,827,716	1,827,716	0	0%
04 Office of Business Development	4,286,390	3,986,341	3,970,001	-16,340	-0.4%
05 Office of Strategic Industries and Entrepreneurship	1,493,667	1,531,043	1,793,763	262,720	17.2%
06 Office of Cybersecurity and Aerospace	1,221,079	1,221,301	1,197,349	-23,952	-2.0%
07 Partnership for Workforce Quality	1,048,749	1,000,000	1,000,000	0	0%
08 Investment Finance Group	3,426,827	3,923,621	3,953,593	29,972	0.8%
09 Maryland Small Business Development Financing Authority	6,249,131	4,860,000	4,860,000	0	0%
11 Maryland Not-for-Profit Development Fund	165,870	337,500	337,500	0	0%
12 Maryland Biotechnology Investment Tax Credit	12,000,000	12,000,000	12,000,000	0	0%
16 Capital – Sunny Day Clearing Account	5,000,000	10,000,000	5,000,000	-5,000,000	-50.0%
18 Reservists and Service-related No-interest Loan Program	250,000	400,000	400,000	0	0%
19 Cybersecurity Investment Incentive Tax Credit Program	0	2,000,000	2,000,000	0	0%
20 Maryland E-Nnovation Initiative Program	8,020,000	9,500,000	8,500,000	-1,000,000	-10.5%
21 Maryland Economic Adjustment Fund – Business Assistance	0	200,000	200,000	0	0%
23 MEDAAF – Business Assistance	22,470,000	25,000,000	28,000,000	3,000,000	12.0%
24 Maryland Tax Credit Reserve Fund	0	9,000,000	7,000,000	-2,000,000	-22.2%
25 Maryland Sales Tax Refund Reserve Fund	0	1,000,000	1,000,000	0	0%
26 More Jobs for Marylanders Tax Credit Reserve Fund – Opportunity Zones	0	0	6,000,000	6,000,000	0%
	FY 18	FY 19	FY 20	FY 19 - FY 20	

T00 – Department of Commerce

<u>Program/Unit</u>	<u>Actual</u>	<u>Wrk Approp</u>	<u>Allowance</u>	<u>Change</u>	<u>% Change</u>
01 Assistant Secretary Tourism, Film, and the Arts	735,880	724,658	661,595	-63,063	-8.7%
02 Office of Tourism Development	3,558,009	3,577,464	3,464,375	-113,089	-3.2%
03 Maryland Tourism Development Board	8,541,555	9,550,000	10,160,000	610,000	6.4%
05 Maryland State Arts Council	20,997,574	22,716,510	24,390,626	1,674,116	7.4%
06 Film Production Wage Credit Program	5,000,000	5,000,000	0	-5,000,000	-100.0%
08 Preservation of Cultural Arts Program	650,000	1,050,000	1,000,000	-50,000	-4.8%
01 Economic Development Opportunities Program Account	0	15,000,000	5,000,000	-10,000,000	-66.7%
Total Expenditures	\$ 125,607,804	\$ 164,463,863	\$ 156,442,294	-\$ 8,021,569	-4.9%
General Fund	\$ 84,044,697	\$ 100,545,399	\$ 96,471,321	-\$ 4,074,078	-4.1%
Special Fund	39,380,848	62,423,970	56,442,204	-5,981,766	-9.6%
Federal Fund	2,182,259	1,494,494	3,528,769	2,034,275	136.1%
Total Appropriations	\$ 125,607,804	\$ 164,463,863	\$ 156,442,294	-\$ 8,021,569	-4.9%

MEDAAF: Maryland Economic Development Authority Assistance

Note: The fiscal 2019 appropriation does not include deficiencies, a one-time \$500 bonus, or general salary increases. The fiscal 2020 allowance does not include general salary increases.